Financial Products and Services for Smallholder Farmers in Tanzania: An Assessment of the MIVARF Programme in Iringa Region

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Abstract

One of the major challenges facing smallholder farmers in Africa is access to financial support to scale up their agricultural production and income. This challenge is also faced by rural farmers in Tanzania who make up about 80 percent of the country's population. As part of the efforts to provide solution to the issue of rural financing facing smallholder farmers, the government of Tanzania in partnership with the International Fund for Agricultural Development (IFAD) has created the Marketing Infrastructure Value Addition and Rural Finance Support (MIVARF) Programme to contribute to reduction of rural poverty and accelerate economic growth on a sustainable basis. This study assessed and established the available financial products and services (FPS) extended to smallholder farmer beneficiaries of the MIVARF Programme in the Iringa Region of Tanzania. Primary data collected from a field survey in two districts of Iringa Region were used. A well-structured questionnaire was used to elicit information from the beneficiaries while key informant interview was adopted for institutions offering financial products and services. The data were analysed using descriptive and

inferential statistical techniques. The findings show that the MIVARF Programme has contributed to improvement in the socio-economic wellbeing of the beneficiaries. Women were also given adequate consideration in the design of financial products and services for smallholder farmers in rural areas in Iringa, Tanzania.

Keywords: Smallholder farmers, Financial products and services, Rural areas, Tanzania

Introduction

One of the major challenges facing smallholder farmers in Africa is access to financial support to scale up their agricultural production and income. This challenge is also faced by rural farmers in Tanzania who make about 80 percent of the country's population (World Bank, 2012). Tanzania remains primarily a rural country with an agriculture-based economy that employs the majority of the national labour force (FAO, 2013). Tanzania is comprised primarily of poor, rural, smallholders whose livelihoods are reliant on agriculture. Tanzania's agriculture sector is extremely diverse. Crop production accounts for 55% of agricultural GDP, livestock for 30%, and natural resources for 15%.

Agriculture plays an important role in the economy of Tanzania. The country is dominated by smallholder farmers and farming is predominantly rain-fed with traditional farming techniques, making smallholder farmers vulnerable to climatic, economic and seasonal shocks which expose them to poverty. Smallholder farmers are constrained by the limitations of subsistence farming practices that leave them vulnerable to climate change effects. Other constraints they experience include lack of access to finance, inputs, low knowledge of good agricultural practices (GAP), low profit margin and poor access to an efficient market, giving rise to low productivity and income (Ejewule, 2017).

For the past few decades, agricultural financing has been the focus of many rural development programmes in developing countries. Donors and governments have recognised that financial constraints continue to weaken performance in agriculture which is directly linked to poverty. Notable is the fact that, reduction in poverty levels are high in Tanzania, and

reduction during the past decade occurred mainly in urban areas, while rural areas have seen relatively little change (Alexander, Sara and Luc, 2016).

Rural communities are highly underserved. Traditionally, formal financial institutions failed to offer sustainable services such as the establishment of rural or agricultural development banks in rural areas. Thus, informal or semi-formal financial institutions, as well as alternative providers like traders or input suppliers, have become major providers of financial services. However, these informal providers often have weak institutional and managerial capacity, and because they operate in isolation from the financial system, they charge high interest rates. People living in rural areas often need access to financial services to purchase agriculture inputs; obtain veterinary services; maintain infrastructure; contract labour for planting/harvesting; transport goods to markets; make/receive payments; manage peak season incomes to cover expenses in low seasons; invest in education, shelter, health; or deal with emergencies (ILO, 2011)

Ensuring that farmers have adequate access to financial resources is a key tenet of successful rural development strategies. Policy-makers have long understood that rural producers who cannot meet their needs for capital must settle for suboptimal production strategies. When producers are unable to make the necessary upfront investments or cannot bear additional risk, they have to forgo opportunities to boost their productivity, enhance their income and improve their well-being (Besley, 1995; Boucher et al., 2008, and; World Bank 2008). Meanwhile, producers who have access to well-designed credit, savings and insurance services can avail themselves of capital to finance the inputs, labour and equipment they need to generate income.

As part of the efforts to provide solution to the issue of rural financing facing smallholder farmers in Tanzania, the government of Tanzania in partnership with the International Fund for Agricultural Development (IFAD) created the Marketing Infrastructure Value Addition and Rural Finance Support (MIVARF) Programme to contribute to reduction of rural poverty and accelerate economic growth on a sustainable basis. The MIVARF Programme was designed to up-scale successful activities under the Agricultural Marketing Systems Development Programme (AMSDP) and Rural Finance Support Programme (RFSP).

This study assesses the financial products and services (FPS) extended to the smallholder farmers who are beneficiaries of the MIVARF Programme in the Iringa Region of Tanzania. Specifically, it examines the available financial products and services, the financial institutions which provide the products and services and the effect of these products and services on smallholder farmers.

Literature Review

For poverty reduction to occur, there is the need for financial deepening, most especially in rural areas where the vast majority of the population in developing countries reside. Microfinance has been used globally as a crucial tool to reduce poverty and improve socio-economic wellbeing. Nwigwe, Omonona & Okoruwa (2012) suggested that the universal objective of microfinance is to make it possible for large numbers of low-income people to access institutional financial services. The potential benefits of microfinance have accounted for its widespread adoption as an economic development, job creation and poverty reduction strategy. Aguilar (1999) submitted that when the poor have access to microfinance services, poverty alleviation will be possible because income will increase and jobs will be created, as they link the poor population to productive economic activities, hence promoting economic growth and development.

Littlefield, Murduch and Hashemi (2003) highlighted in their work that various studies on microfinance and poverty reduction have recorded increases in income and assets, and decreases in the vulnerability of microfinance clients. They cited projects from Bangladesh, Bolivia, Indonesia, Zimbabwe, and India to provide empirical evidence showing the positive impact of microfinance in reducing poverty, adding that microfinance allows poor people protect, diversify and increase their sources of income, the essential path out of poverty and hunger. Also, it helps safeguard poor households against the extreme vulnerability that characterises their everyday existence. Khandker (2003) is of the opinion that the extent to which microfinance can be useful to the poor is dependent on the poor's ability to utilise what microfinance offers them. He further stated that microfinance provides a window of opportunity for the poor to access a borrowing and saving facility. In other countries, these facilities also provide organisational help, training, safety nets, empowerment, and financial and other help during crises. Microfinance organisations can

alleviate liquidity constraints, stabilise consumption, and enhance both income and consumption for the poor, thereby augmenting the poor's welfare (Appah, John & Soreh, 2012).

Despite the different studies attesting to the fact that micro-financing can lead to poverty reduction, some scholars (Chowdhury, 2009) are of the opinion that beyond providing microcredit to poor households, there is the need for complementary factors for microfinance to have some positive impact on poverty reduction. The supply of microcredit does not necessarily ensure the availability of complementary factors in adequate quantities and quality. Some microfinance institutions and non-government organisations (NGOs) seem to have understood the need for such factors and, therefore, also offer training to build management and entrepreneurial skills. There are also NGOs (such as BRAC in Bangladesh) which provide basic education in rural areas using innovative methods. These are all potentially positive developments for poverty reduction efforts.

Analytical Framework

Rural Finance and Sustainable Livelihood Framework

The Sustainable Livelihood Framework as developed by the Department for International Development (DFID, 2001) was adopted for the purpose of this research. The framework explains the relationship between poverty and access to financial services. The framework accounts for the theoretical and empirical continuum of livelihood assets (inputs) leading to production output; and the livelihood outcomes (well-being). Furthermore, the proposed analytical framework recognises the role of financial asset (capital) and institutions in influencing well-being and development outcomes (Oshinowo, 2017).

The uniqueness of the sustainable livelihood framework is that it negates the traditional perception of poverty that is based on income considerations (Bee, 2007). Following the sustainable livelihood approach, it is clear that poor people do not only lack income, but face inadequate food, poor shelter, and lack access to education and health. In this context, they are vulnerable to ill-health, economic displacement, and natural disasters (Ashley and Carney, 1999: 47; Meyer, 2001: 2). Furthermore, they are also subject to government policies, regulations and actions which they are powerless to influence. The choice of household livelihood strategies is,

therefore, influenced by households' level of assets, their access to resources (natural resources, physical capital, financial capital, human capital, and social capital), and the structures and processes within which they operate (Bee, 2007).

The framework emphasises that SHF access to financial products and services, such as savings and deposit facilities, loans, credit, insurance, and mobile money, will undoubtedly improve their productive assets, hence improve productivity. This shows that poverty reduction can be achieved were financial capital exists. Access to financial services unleashes the economic potential to a greater proportion of the population who are in most cases bankable but underserved (Bee, 2007).

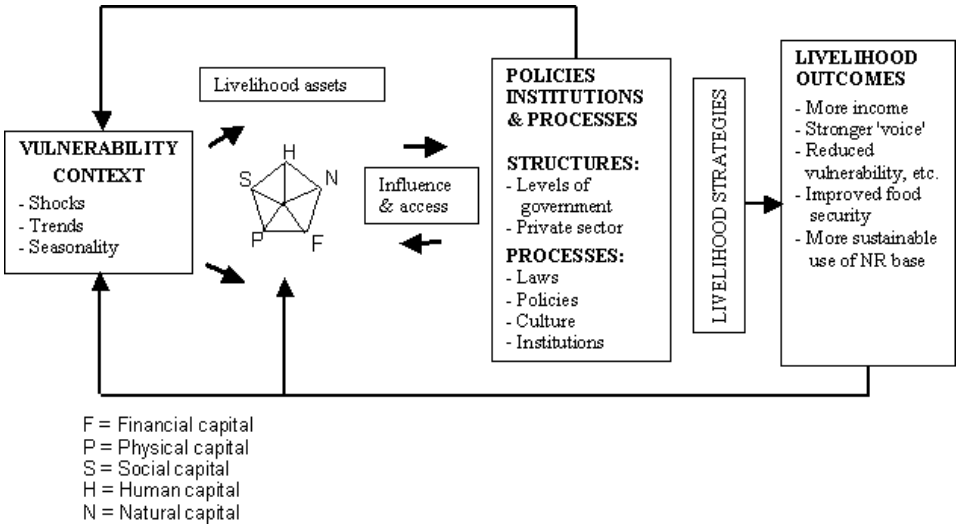

Figure 1: Likelihood Framework Model.

Ashley and Carney, 1999.

Methodology

The study was conducted in the Iringa Region of Tanzania. The Iringa Region is in the southern highlands of Tanzania Mainland. It shares borders with five regions, namely Morogoro Region in the East, Njombe Region in the South, Dodoma and Singida Regions in the North and Mbeya Region in the West. Administratively, Iringa Region is divided into 3

districts, namely Iringa, Mufindi, and Kilolo, with 4 councils, namely: Iringa District Council, Mufindi District Council, Kilolo District Council and Iringa Municipal Council. The region is further subdivided into divisions, wards, villages/hamlets and streets.

Tanzania has a land area of 33,038.80 sq km with a population of 941,238. The region has a gross domestic product of 1,985,708 (Tsh million) and a per capita GDP of 979,882 (Iringa Region Socio-Economic Profile, 2013). The population for the study were all beneficiaries of the MIVARF Programme in the three (3) districts in the Iringa Region of Tanzania where the programme is been implemented. The districts are Iringa, Mufindi and Kilolo. A multi-stage sampling technique was employed to select a total of three hundred and seventy-five (375) beneficiaries. In the first stage, two districts were purposively selected; these are Iringa and Kilolo districts. The second stage involved the selection of two wards from each of the districts (Itunundu, Mlenge, Ilula and Image) while the third stage involved the selection of 6 villages from the chosen wards (Itunundu, Isele, Kinyinka, Kisanga, Ikokoto and Lyasa). Three hundred and seventy-five (375) farmers were then randomly selected from the six villages.

The study obtained data and information from two major sources: primary and secondary sources. The study employed the qualitative survey method (key informant interview (KII)) and quantitative survey method (structured questionnaire administration). The primary data were collected through the use of well-structured questionnaires, and administered by well-trained enumerators in the study area. Secondary data were obtained from records made available by the MIVARF office in Arusha, Tanzania through previous reports, reviews and publications. The type of data collected included socio-economic data, welfare data, gender-specific data and information on the administration of financial products and services by financial institutions. The quantitative data was analysed using the Statistical Package for Social Sciences (SPSS statistics IBM 20) and the results were presented through relevant tables and charts. The qualitative data collected were transcribed, organised and validated for easy analysis.

Results and Discussion

Assessment of the different financial products and services available to smallholder farmers

This objective highlights the types of FPS available, institutions providing these services, access to FPS, cost of accessing, timeliness of disbursement and duration of repayment. The results presented in Figure 2 reveal that there are several types of financial products and services available to smallholder farmers based on their perception. The most readily available are mobile money service (84%) and loans(78.7%) while the least available are social security (2.4%) and insurance (1.3%).

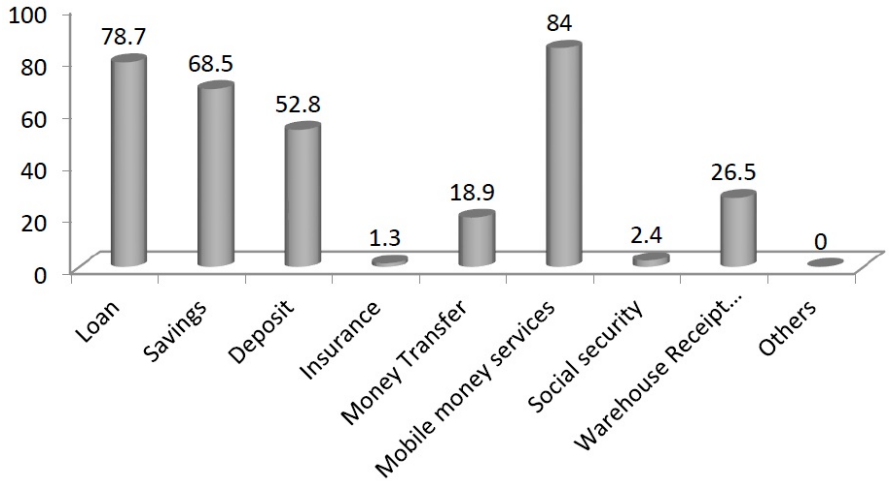

Figure 2: The proportion of the available financial products and services
Source: Field survey, 2018.

All the financial institutions included in the study attested to the fact that the most available and utilised FPS was loans. The financial products and services utilised include loans, savings, deposit, insurance, money transfer, mobile money services, social security, and warehouse receipt system (WRS).

The institutions providing financing to smallholder farmers in rural areas of Iringa Region include: SACCO, acronym for Savings and Credit Cooperative Organizations, which is owned, governed and managed by its

members who have the same common bond; AMCOS represents Agricultural Marketing Cooperative Societies; VICOBA which stands for Village Community Banks, Microfinance Banks; and the Tanzanian government (Figure 3).

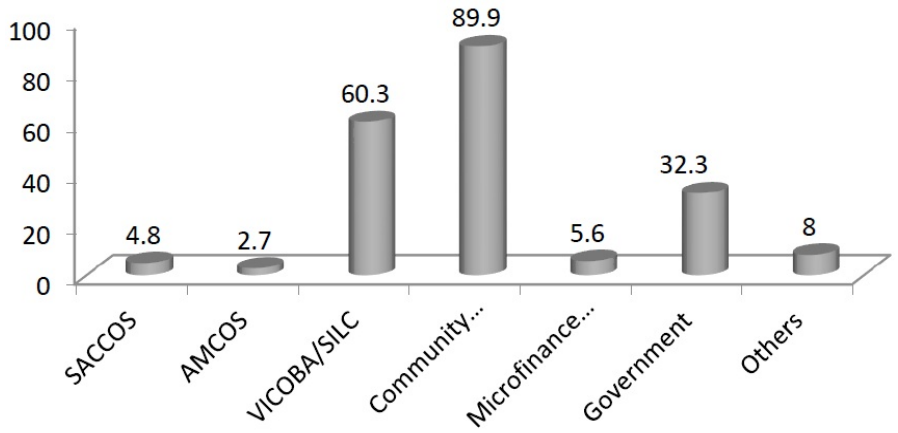

Figure 3: Proportion of the available providers

Source: Field Survey, 2018.

The results in Figure 3 show that the institutions providing financing to smallholder farmers in the rural areas of Iringa Region are mainly community banks (89.9%) and VICOBA/SILC (60.3%). Government also supports financing smallholder farmers (32.3%) through the district office (community development). This information shows the relevance of grassroots financial institutions such as community banks and VICOBA in providing services to rural people at the local level. Their role cannot be overemphasised considering that they are active players in providing FPS, especially in developing countries like Tanzania.

Figure 4 indicates that loans were the most accessed FPS (81.1% of respondents), followed by mobile money services (77.6%), while social security usage (2.7%) and insurance (1.9%) were the least accessed. It is important to note that the FPS are not all utilised at the same rate because of the differences in their nature. They are utilised based on the level of importance and accessibility to the target group. The financial institutions interviewed during the KII corroborated the fact that loans were the most accessed FPS. This means that there are other FPS which are unavailable or

greatly underutilised because of their nature. There is the need to ensure the availability of other FPS so that SHFs have options and are fully included in the financial market. It is also important to note that during one of the KIIs in Mafinga District, one respondent, when asked if they have insurance available for SHFs, stated: "For farmers, we have only one type of insurance which is life insurance. We insure farmers during their loan period". He further stated that "Some institutions are coming in to guarantee these farmers" and added, "we do not have insurance especially crop insurance because it needs data which is very difficult to get for SHFs".

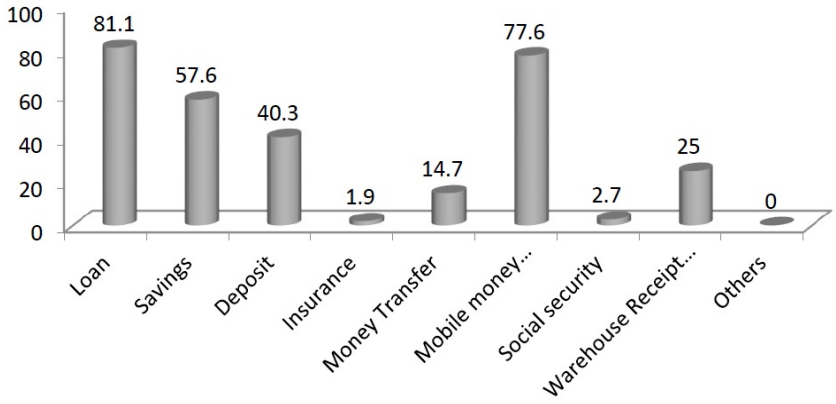

Figure 4: Proportion of the accessed financial products and services
Source: Field Survey, 2018.

The most accessed FPS is loans which 81.1% of the respondents have accessed. The amount of interest on loans, as obtained from the financial institutions, ranges from 10% to as high as 25%. According to the Head of Community Development (District Office), as low as 10% interest rate is required from smallholder farmers by institutions providing FPS on loans. This is lower than what most financial institutions demand. Table 3 shows the time it takes to access (time of application to the time loan is released) and repay loans. The majority of respondents at (48.5%) said it takes 0-2 weeks while the least number of respondents (1.3%) stated that it could take 9 weeks and above. Summarily, 87.2% responded that it takes from 0 to 5 weeks to access a loan. This short time frame makes it easier for farmers to access loans and use it in a timely manner. Delay in disbursement of loans

or credit facilities can limit or reduce production capacity considering that agricultural activities are time bound and hence require optimal timeliness.

Table 1. Time to access and repay loans

Time to Access	Percentage	Time to Repay	Percentage
0 – 2 weeks	48.5	0 – 2 months	14.4
3 – 5 weeks	38.7	3 – 5 months	35.7
6 – 8 weeks	11.5	6 – 8 months	23.5
9 weeks and above	1.3	9 months and above	26.4

Source: Field survey, 2018.

The most common time cited by most respondents (35.7%) for loan repayment is 3-5 months, followed by 6-8 months by 23.5% of respondents and (9 months and above) by 26.4%. Loan repayment is dependent on financial institutions and their terms and conditions. For Vision Fund Tanzania (VFT), repayment of loans commences at the first month of accessing the loan. The interest accrued on the loan is expected to be paid back on a monthly basis and the principal paid at the end of the loan tenure. This means that the farmers who access the loan are expected to engage in other income-generating activities outside farming. The implication of this is that agriculture is not perceived as a business, hence farmers are expected to engage in other off-farm or income-generating activities while awaiting their harvest. This is not the case for all financial institutions.

To be able to access FPS, the first requirement is to open a bank account which must have been in use for at least 3 months before an application is made. In addition, the FIs mentioned that they build the capacity of their intended customers before loans are accessed. One KII respondent stated that "the trainings are on financial literacy, usage of loans, loan repayment and the likes". In some cases, before loans are accessed, the group or individual is expected to deposit 10% of the intended sum, the institution thereafter adds the remaining 90% to make up the requested amount.

There was an all-round improvement in both the socio-economic wellbeing of the respondents and the yield of the paddy production based on MIVARF interventiuon. Table 2 shows the socio-economic wellbeing of the respondents before and after accessing FPS. From the responses, it is

obvious that the farmers were better off socio-economically after the intervention.

Table 2: Socio-economic wellbeing of respondents before and after accessing FPS

Variables	Intervention	Poor	Average	Good	Very Good
Income	Before	43.7	54.9	0.3	0
	After	0.3	13.6	83.7	1.3
Land size for production	Before	26.1	72.0	0.8	0
	After	0	9.1	87.5	2.4
Productivity	Before	29.1	69.1	0.8	0
	After	0	5.6	89.1	4.3
Savings	Before	23.5	74.9	0.5	0
	After	0.3	7.2	88.5	2.9
Access to healthcare	Before	25.1	72.0	1.6	0.3
	After	0.5	8.5	86.9	3.5
Education for children	Before	21.6	75.2	2.1	0
	After	0	7.5	87.2	3.7
Others	Before	20.8	74.9	2.9	0.3
	After	0	6.9	89.6	2.4

Source: Field survey, 2018.

The yield for paddy production also increased from 2.1 tons before the MIVARF intervention to 3.0 tons after the intervention. Using the paired sample test (t-test) for this comparison, the p-value of 0.001 shows that the increase in paddy production is significant.

Table 3: Change in yield for paddy production

Variable	Before	After	P-value
Production of paddy	2145.29	3034.23	0.000

Source: Field survey, 2018.

Consideration for Women in the Design and Access to Financial Products and Services

In Tanzanian culture, women do not own collateral, since they have no right to own land or houses among others. This has informed the

rationale behind financial institutions designing products and services specifically targeted at addressing this challenge. During KIIs with financial institution representatives, they affirmed taking women into consideration during the design of their FPS. One of the interviewees in Mafinga District noted, "we design our products to fit these women because they do not have collateral; that is why we came up with group loans specifically for women and youth". Another interviewee in Iringa business district noted that there is no particular product for women that both men and women belong to the same group which is not gender-sensitive.

On accessibility of loans, the Head of Community Development (District Office) in Iringa stated that "it is very easy for women to access. There is no collateral, so it is compared to the bank and our interest is very low- 10%". He further stressed that their focus is on "special groups" which are poor women and youth".

It is important to note from the above discussions that the different institutions have a special interest in women groups, although there are no specific products for women. Their general FPS are designed in such a way that they give consideration to women. This means that they understand and consider the challenges that women face in their society in their design process, hence the effort to ensure that women are included in accessing FPS. The only challenge here is that FPS is only available to women applying for loans in a group and not for women who want to apply as individuals.

Despite the efforts being made to consider women in the design and access to FPS, women are still faced with challenges which have prevented them from expanding their farming activities/businesses mostly because they do not have adequate working capital like their male counterparts. This, in turn, leaves more women marginalised and unable to contribute to their local economy. The challenges identified are lack of collateral (95.7%), lack of access to information (74.9%), mobility (58.9%), not belonging to a group (49.6%), guarantor (17.9%), and others.

Conclusion and Recommendation

The relevance of this study is to prove with empirical evidence the improvement in the socio-economic wellbeing of beneficiaries who have had access to financial products and services through the MIVARF Programme in the Iringa Region of Tanzania. From the results, there is no doubt that the

programme has been beneficial to its beneficiaries. With this in mind, it is important to note the instrumental role micro-financing plays in alleviating poverty among smallholder farmers and in giving them the opportunity to build their assets and improve their socio-economic wellbeing. There has been an increase in income, land size used for production, productivity, savings, access to healthcare, education for children and other indicators.

Despite the success of the programme in meeting the needs of SHFs, it was also faced with shortcomings as attested to by some of the respondents. One major issue is the delay in disbursing loans or credit to meet the urgent or periodic need for agricultural activities. It is known that agricultural activities are time-bound, it is therefore important that loans are disbursed in a timely manner to ensure their usefulness. Another challenge was loan repayment duration. Some FIs require that the interest on loans be paid on a monthly basis. This has proved a challenge to SHFs because it means that farmers are forced to engage in other off-farm activities to meet with the loan requirement. This shows that the loans were not designed to meet the needs of farmers. Finally, despite the shortcomings of the MIVARF Programme, it is advisable that the programme be scaled up because it has the ability to contribute to rural transformation.

Despite the progress made by the MIVARF Programme to ensure more SHFs have access to financial products and services, there is still the need for improvement. Based on this, recommendations are made for farmers, financial institutions and government/relevant stakeholders.

Smallholder Farmers

Farmers need to take responsibility to ensure that FPS accessed are paid back as and when due. This will enable FIs to assist more clients, hence have a wider range of beneficiaries/clients as well as deepen their impact in rural financial service delivery.

Financial Institutions

There is a need for financial institutions to look into their terms and conditions for products and services in favour of the development of smallholder farmers. This will enable more SHFs to access FPS with more favourable conditions. Aspects to be looked into include: interest rate which ranges from 10% to 25%; time for repayment of loans; demand for collateral

in some cases; and the general requirements for addressing the needs of the poor and rural people. Capacity building and training should be done for farmers on financial literacy, money management, loan repayment and savings. This will ensure that SHFs are more enlightened on issues of financing. It is recommended that FIs build physical structures close to their customers so as to solve the distance barrier that customers face. This will lead to an increase in the customer base as more clients will be able to access FPS. The FIs will be able to provide more efficient and effective service delivery and clients will have easy access to information and be able make inquiries. In addition, there is the need for financial institutions to be more innovative in developing new products and services that are not only more user-friendly but also based on their clients' needs and flexibility.

Government and Relevant Stakeholders

Government plays a vital role in ensuring that financial products and services provided are optimally utilised by improving on infrastructural development (such as roads, warehouses, etc.) in rural areas. This will foster more financial activities and ensure more farmers have options for financial products and services. Considering the success of the MIVARF Programme, based on the findings of this research, there is a need to upscale the programme to include more beneficiaries and financial institutions in order to provide more financial support to the most vulnerable groups in rural Tanzania.

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